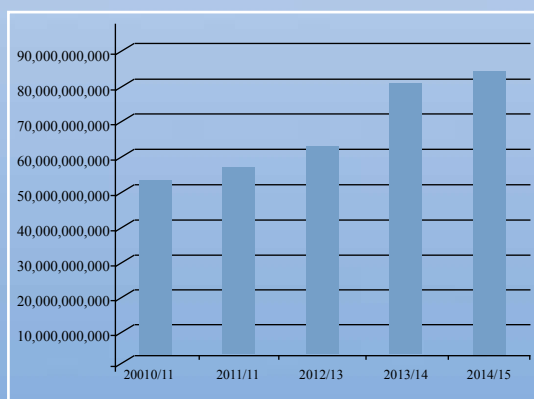
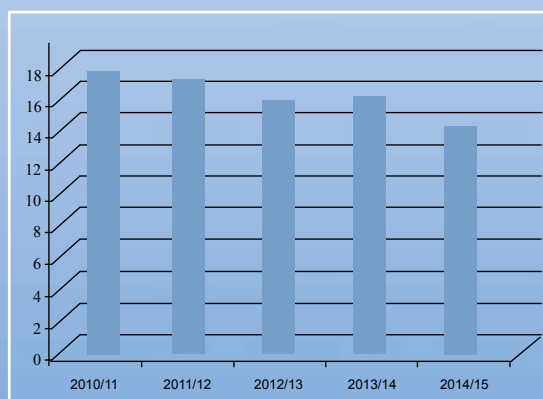


Analysis of National Education Budget from Civil Society Perspective

Trend of Budget in Nepal



May, 2014



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Foreword

National Campaign for Education-Nepal (NCE-Nepal) a coalition of civil society organizations including media, teacher unions and national, International organizations engaging themselves in the field of education has been acting advocating for ensuring the educational right of the children in the country. Therefore, allocating at least 20% of budget in education is indispensable. Before the promulgation of New Education System Plan (1971), the schools in Nepal were managed and financed by local communities. The new education system plan (1971) nationalized the education and evolved the concept of financing from the government including teacher salary and school's administrative cost etc. After nationalizing the education system gradually lessened the role of community in managing schools and amplified the state's responsibility.

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During the past five years, the Government has invested from 15 to 17 percent of the total national budget in education. In terms of the gross domestic product (GDP), the education share about 4 percent. The total allocated budget in education and share of GDP seem lesser than government's commitment to increase the education budget up to 20 percent of total national budget and 5 percent share of GDP. On the other hand improper utilization of budget has impeded the child's rights to quality education.

Budget increment along with proper management is very crucial aspects of financing in education. So, it is necessary to establish financial governance system in education to increase efficiency and absorptive capacity. Thus, National Campaign for Education Nepal undertook a study to understand the budget priorities in education and its implications for ensuring rights to quality education of all children. The other objective of this study was to disseminate information on budget formulation and process to wider audience.

In accomplishing this study, the contribution from different levels remained adorable and need to acknowledge them. Thus, I would like to thank Education Journalist Group (EJG) for their involvement in garnering the required data and coordinating. Similarly, I would also like to express my sincere thank to Dr. Megh Dagal for his earnest involvement in finalizing the report of this study. I am also grateful towards the editorial team of NCE-Nepal who brought this report in this form. The NCE-Nepal's board members and coalition members deserves the special thanks whose support remained notable to publish this report. Last but not least, I would like extend my sincere thanks to NCE-Nepal's secretariat staffs and volunteers for their tired less effort.

Babu Kaji Shrestha
President
National Campaign for Education-Nepal (NCE-Nepal)
1st July 2014



Executive Summary

The National Campaign for Education-Nepal (NCE Nepal) is a network of 140 National and International Non-Government Organizations (I/NGOs), Teachers' association and education journalists and other civil society organizations. NCE Nepal is affiliated to the Global Campaign for Education (GCE) International. Being a national chapter of the GCE, NCE Nepal acts locally, regionally and internationally. NCE Nepal focuses on advocacy in achieving Education for All (EFA) goals by 2015. NCE Nepal has been working since 2003 in advocacy for ensuring quality and inclusive education for all children in Nepal. NCE Nepal also advocates for formation, reformation and implementation of the state policies in order to achieve its goals. NCE-Nepal has undertaken an analysis of national budget formulation process and its release by focusing on Budget Allocation as per the requirement of education sector. Besides, it also analyzed the source of revenue collection through education taxation to sensitize wider audience through media and lobby with policy makers as accordingly. The process of budget formulation is a major part of education financing. It is an elaborate and complex process of allocating resource for education sector. Resources devoted by countries in education vary according to capacities and priorities. An ideal financing system would be able to generate adequate funding to deliver quality education efficiently and equitably among members of society. However it also has to be understood that increasing expenditure cannot always be the solution and may not translate to improved outputs and outcomes.

The study was undertaken to understand various sectors prioritized by education financing and its implications on overall education sector development. The report first gives budget formulation process and goes on to review status of free and compulsory education. The study analyzes current practices of financial governance in education at national and local level. The study is based on qualitative approach. Literature review, interviews, FGD and observation were major study tool.

The objectives of the study are:

- To explore the budget formulation and release process to raise awareness among wider public
- To review status and progress of free and compulsory education in lieu with budget availability and utilization
- To observe financial governance at national and local level


Education is still one of the most prioritized sectors by the government. The largest share of budget allocation is for general expenditure which accounts to around 27 percent of the total budget. Government of Nepal has allocated Rs 80.95 billion in fiscal year 2013/14 for education sector which is 16 percent of total budget (Rs. 517.24 billion). This budget has been reduced compared to 16.60 percent in the fiscal year 2012/13. Education for All (40.64%) has received the highest allocation of budget.

Education Service Tax (EST) has been introduced to generate revenue to finance education. Through EST, Government of Nepal has planned to collect Rs. 3.8 billion in fiscal year 2013/14. Though the educational institutions collect money under various headings from the students, the Educational Tax Directive 2065 has limited only to the admission fee and educational fee for the purpose of raising tax. This gives private schools an opportunity to increase funds from parents under various headings. It is likely that the tax imposed on schools is shifted to parents and ultimately it is the household sector that pays the tax.

Both budgeting and planning process starts at the school level. However the DOE fixes the budget ceiling for a district prior to receiving budget requirements from respective schools. This decision is based on the data of previous year. This makes the budget formulation and allocation process centralized. One of the reasons for centralized process could be the delay caused due to the trimester system.

It is observed that schools do not receive amount demanded. Schools in study districts namely Dadeldhura, Banke, Kathmandu and Saptari have mentioned that the DEO allocate budget on priority basis. At times DEO transfers the fund to schools account without clearly mentioning the budget heading. This creates problem to school on identifying how much to spend for various purpose. If schools want to know the budget heading, they need to visit DEO to get detail information. Fund utilization seems to be quite high in almost all the sample districts. It, however, does not tell whether the fund is efficiently or effectively used. Audit reports have pointed out most of the spending as un-audited (irregular). Among the four districts, the highest was for Saptari with 1.8 billion rupees. It raises serious questions about the way funds are being utilized at the DEO level. Schools have not been able to perform social audit due to lack of manpower.

Based on the study it is recommended that:

- School's priority should be decisive on budget allocation.
 - Detail headings of amount should be provided by the DEO while allocating budget.
 - Current amount of Rs.1000 provided by government for financial audit is not sufficient and has to be increased.
 - All schools should be monitored for social and financial audit
 - Supervision system needs to be strengthened to monitor funds allocated for scholarship and curriculum development.
 - DEO has to annually review audit reports and give relevant feedbacks.
- 

Acronyms

DDC	District Development Committee
DEO	District Education Officer
DoE	Department of Education
DEP	District Education Plan
DTCO	District Treasury Control Office
EFA	Education for All
EIMS	Educational Management Information System
FCGO	Financial Controller General Office
HT	Head Teacher
INGO	International Non-Government Organization
JD	Job Description
MoE	Ministry of Education
MOF	Ministry of Finance
NCEN	National Campaign of Education Nepal
NGO	Non-Government Organization
NPC	National Planning Commission
NESP	National Education System Plan
PCF	Per child Fund
RC	Resource Centre
RT	Relief Teacher
RED	Regional Educational Directorate
RP	Resource Person
SIP	School Improvement Plan
SMC	School Management Committee
SS	School Supervisor
TOR	Terms of Reference

Table of Contents

Chapter 1:	Introduction	1
	1.2 Rationale	2
	1.3 Objectives	2
	1.4 Study approach	2
	1.5 Delimitation of the study	3
	1.6 Organization of the Study	4
Chapter 2:	Literature Review	5
	2.1 Brief history	5
	2.2 Education financing	5
	2.3 Policy provisions	6
	2.4 Trend in education financing	7
Chapter 3:	Finding and Analysis	9
	3.1 Introduction	9
	3.2 Education budget in fiscal year 2013/14	10
	3.3 Education taxation	12
	3.4 National budget formulation process	14
	3.5 Observations at district level	18
	3.6 Findings related to free and compulsory education	22
	3.7 Problems and challenges in implementing free and basic primary education	23
Chapter 4:	Conclusion and Recommendations	25
References		26

Chapter 1:

Introduction

Education is a priority sector in all countries. Government as well as private resources are devoted to education. Effects of education are not only limited to the individual who acquires it but also generate spillovers for the society. Human capital develops when the society has strong education system (Saavedra, 2002). As economies become more knowledge intensive, demand for education increases leading to increase in investments. Outcomes of education have to be understood not just being limited to individual and social returns in skill, knowledge, competence and attitude but how they contribute to creation of personal, economic and social wellbeing (UNESCO, 2003).

Resources devoted by countries in education vary according to capacities and priorities. Although, there is no agreed upon definition of “adequate level of resource”, investment in education is one of the important factors of determining quality of education. An ideal financing system would be able to generate adequate funding to deliver quality education efficiently and equitably among members of society. However, it also has to be understood that increasing expenditure cannot always be the solution and may not translate to improve outputs and outcomes. When structures of education are not well developed, then increasing expenses may not lead to desired outcomes.

Education financing is one of the most important aspects of human capital supply. It is an elaborate and a complex process of allocating resource for education sector. Issues such as area of priority, ways of generating resources, human resource requirement, level of investments, regions of investment (rural or urban), roles of students and household sector, role of government and private sector, role of international agencies, measures of outcomes of investments are connected with education financing (Vegas, 2011).

Considering the importance of education financing, the study report first explores the process of education budget formulation process and goes on to review status of free and compulsory education. Finally, the study analyzes current practices of financial governance in education at national and local level.

1.2 Rationale

The study was undertaken to understand various sectors prioritized by education financing and its implications on overall education sector development. One of the major aims of the study is to disseminate information on budget formulation and dissemination process in education sector. Although education budget has been increasing, existing education structure in Nepal has not been able to spend all allocated budget. It is necessary to understand financial governance system in education to identify areas which have to be improved to increase efficiency and absorptive capacity.

1.3 Objectives

The overall objective of this research is to comprehend the financing system in education to contribute in increased efficiency in the budget allocated in education.

Specific objectives of the study are:

- To explore the budget formulation and release process to raise awareness among wider public
- To review status and progress of free and compulsory education in lieu with budget availability and utilization
- To observe financial governance at national and local level

1.4 Study approach

The study is based on qualitative approach. Literature review, interviews, Focus Group Discussion (FGD) and observation were major study tools.

Desk study

National policy framework in relation to education budget has been analyzed in addition to past researches on education budget in Nepal. Desk study was carried out to observe previous studies and design the study. Along with study reports, relevant education policies have also been analyzed.

Focus Group Discussion (FGD)

FDG was carried out with journalists reporting on education and head teachers of various schools in Kathmandu. FGDs helped in triangulating facts and also showed the view of journalists on education financing and budgeting.

Observation

Total of 25 schools were observed for the study. Five schools were chosen from one district in each development region. Observation method was used to analyze the gaps in policy and practice. Local level demand for resources in education was observed along with existing scenario of financial governance in these schools. Focus was given on accountability, transparency, information sharing, auditing, fund transfer and payables (*Beruju*).

Key Informant Interview (KII)

KII was carried out in various phases of the study. It is a process of interviewing limited number of people who possess information regarding the research issues. KII was based on semi structured checklist. Seven KII were carried out for the study. KII was done with following participants:

Spokesperson at Ministry of Education (MoE), Director General of Department of Education, District Education Officer (Banke), Education Journalists, District Journalists reporting on Education, Program planning Section head at Department of Education and Education experts.

1.5 Delimitation of the study

The study only focuses on school level education. Only public schools are considered for the study. Due to lack of time and resources only 25 schools from Saptari, Banke, Rupandehi and Kathmandu were considered for the study. Hence, the findings cannot be generalized for the entire country. However, the study gives an idea of the current scenario. The schools have been analyzed on the basis of budget formulation, implementation and revenue collection process and interventions for improvement of the situation have not been analyzed.

1.6 Organization of the Study

The report is organized into four chapters. The first chapter gives background and introduction of the study along with methods used for the study. The second chapter gives literature review. The third chapter gives analysis and findings of the study. The final chapter gives the conclusion and the recommendations.

Chapter 2:

Literature Review

2.1 Brief history

Planning in education sector in Nepal began with the advent of Fourth Five Year Plan (1970-75), though Ministry of Education (MoE) was established after the establishment of democracy in 1951. The Nepal National Education Planning commission (NNEPC) was formed in 1956 for the expansion of education sector. Tribhuvan University was established in 1961. The National Education System Plan (NESP) was launched in 1971 and primary education was declared free in 1976. Education Act was promulgated in 1971. The consequent years saw an increase in overall enrollment rates in primary, secondary as well as tertiary education. For expansion of higher secondary education (11 and 12), Higher Secondary Education Board (HSEB) was established in 1989 (Shiwakoti, 2008). With the restoration of multiparty democracy in 1990, foreign aid in education sector increased substantially with programmes such as Basic and Primary Education Programme (BPEP), Education for All (EFA) and School Sector Reform Programme (SSRP). At present, around one third of education budget comes from foreign support (Dangal, 2013).

2.2 Education financing

Although, Nepal does not have specific “Education Financing Policy”, financing provision has been mentioned in various education policies. Education financing is based on basket funding approach. Public schools, universities and Technical Education and Vocational Training Council all have separate basket funds which consist of funds from the government, donations, amount generated from fees, grants and funds from other sources. All these institutions need prior approval from Government of Nepal before receiving additional assistance from other national or international institutions.

MoE is the patron of education in Nepal. It consists of six divisions which are Administration and Sports Division, Higher Education and Education Management Division, Planning Division, Monitoring Evaluation and Inspection Division. Under the MoE, there are other departments which are Curriculum Development Center and Department of Education and Universities, University Grants Commission, Teacher Service Commission, Higher Secondary Education Board, National Sports Council, Council for Technical Education and Vocational Training and National Scout are the autonomous bodies under the Ministry of Education. Education administration is decentralized into three levels: the center is managed by MoE; at regional level, there are Regional Education Directorates; and at district level, there are District Education Offices (DEO), and at local level there are Schools, Resource Centers and School Management Committees (SMC). For all these entities, fund from government is the major source of financing (UNESCO, 2008).

2.3 Policy provisions

School education is the most prioritized sector of education financing in Nepal. Education Act 2028 (1971) (eighth amendment, 2006) has made various provisions for school level funding. District Education Fund consists of grants from Government of Nepal, grants from District Development Committee, amount collected from education tax, donations and funds from other sources. At local level, schools are funded by the School Fund which consists of grants from Government of Nepal, grants from District Education Fund, grants from Village Development Committee (VDC) or municipality, fees, donations, funds from other sources. The sixth amendment of this act has made provision for Rural Education Development Fund which consists of funds from Government of Nepal, funds (not less than 1.5 percent of total annual revenue) from institutional schools, donations, funds from other sources.

School Sector Reform Plan, 2009-2015 has made provision for allocation of funds to VDC through District Development Committee (DDC) for programmes such as literacy/neo-literacy and lifelong learning, Early Childhood Education Development (ECED), and scholarships. It mentions that local governments and school communities will play major role in financial management and there will be gradual increase in government allocation for the education sector from 17 percent to 18.6 percent, leading to 20 percent of the total national budget and allocation of about 85% of the total education budget for the school sector. It also mentions to shift focus to non-recurrent and one-time development activities. Social Audit has been made mandatory for all schools.

School Accounting Guidelines 2066 (2009) aim to create uniformity in accounting records in public schools. It also mentions financial responsibilities of School Management Committee and gives different headings of incomes and expenses of school. Likewise, School Grants Operation Directive, 2063 (2006) has made provision for block grant and earmark grant. It mentions various headings under block and earmark grant that the school will receive. Per Capita Funding mechanism is used while allocating grants in schools. Per Capita Funding is a mechanism where each individual student receives equal amount of grant. This amount is calculated by dividing initial salary of teacher by number of students allocated based on geographical location (40 in mountains, 45 in hills and 50 in terai region). Schools have to prepare School Improvement Plan in order to receive the grant. The main objective of this type of funding is to bring uniformity in grants allocation, and reduce effect of teacher shortage.

The Social Audit Guideline 2065 (2008) makes social audit mandatory for all the community schools. It explains the process of making social audit committee in community schools. At the end of each fiscal year, the social audit committee should prepare a report and make it public to concerned stakeholders through interaction at school level. The school submit the social audit report during the final audit to the auditor. Schools have to submit the social audit report by Asoj 15 (End of september) of each year to the school supervisor. The supervisor will then give comments. A comprehensive report of all the social audit reports has to be submitted by the supervisor to the Regional Education Directorate and the Department of Education in the format mentioned in the guideline.

2.4 Trend in education financing

Although the national education budget is increasing, the gap between national budget and education budget is also increasing (MoE, 2012). It is observed that annual growth rate in education budget is fluctuating. Primary education is the most prioritized sector. Funding is done based on number of children in school by the principles of per capita funding. Around 80 percent of education funding is spent on teacher salaries and construction (Shakya, 2013). Around 25 percent of the education financing has been funded by foreign aid.

Tracking Public Expenditure on Education in Nepal (2011) identifies the steps required to disburse funds to schools and students starting from MoF to MoES to district to schools and the users. It shows the status of access utilization of funds by the schools. The study was conducted for the period of 2009 and 2011 year with the main objective of identifying school financing pattern in community managed schools and compared with non community managed government schools, and suggested measures to improve timely flow of fund. It has collected and reviewed financing process, budget and strategy concerned with central and local level agencies.

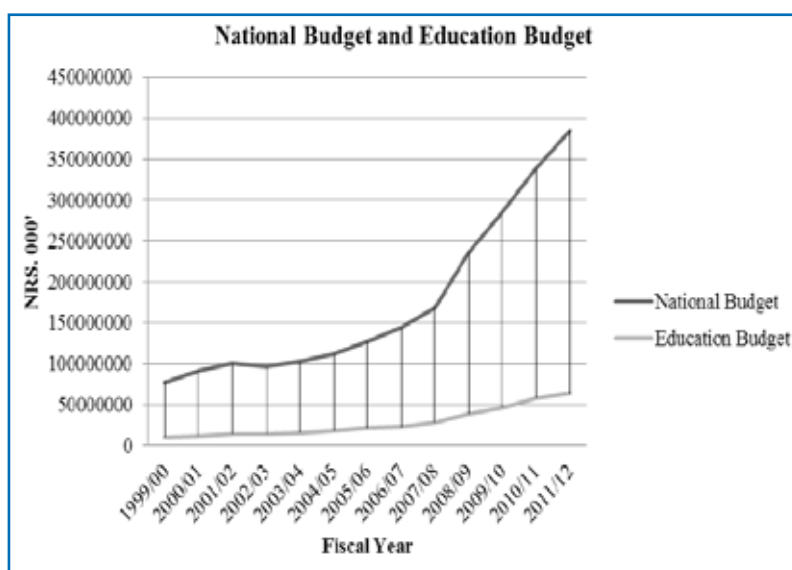


Figure 3. Comparison of National and Education Budget (MOE, 2012)

The report observes that in public schools located in rural areas, participation of local stakeholders in budget making process is very low. It also points out that majority of schools have not received funds on time. The report also points out that Government allocation on scholarship is not adequate to address the policy commitment and there is often mismatch between needs and allocations. The study further recommends that active participation of the community can enhance better planning to develop SIP. It is necessary to integrate all stakeholders in budget making process. The study also recommends that budget allocated from Ministry of Finance should directly reach to the school's account through Ministry of Education. It also refers to strengthen the school based management approach adopted under the current regulation with emphasizes on capacity building at the school level.

Chapter 3:

Finding and Analysis

3.1 Introduction

Government of Nepal has allocated **Rs 80.95 billion in fiscal year 2013/14 for education sector which is 16 percent of total budget** (Rs. 517.24 billion). This budget has been reduced compared to 16.60 percent in the fiscal year 2012/13. The total budget allocation for the fiscal year 2013/14 is presented below:

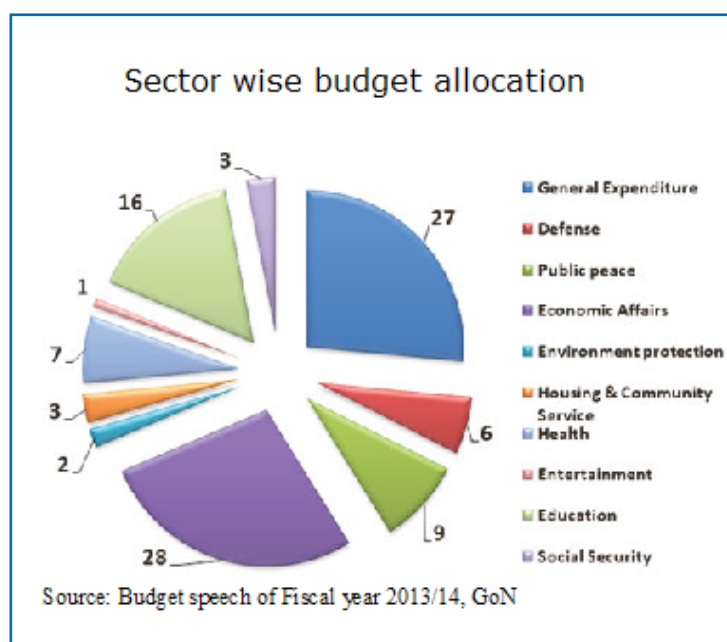


Figure 4. Budget allocation for fiscal year 2013/14

Education is still one of the most prioritized sectors by the government. Compared to other sectors such as public peace, defense, environmental protection, housing and community, education is receiving more allocation of budget. The largest share of budget allocation is for general expenditure which accounts to around 27 percent of the total budget.

3.2 Education budget in fiscal year 2013/14

Table 1. Budget allocation for the fiscal year 2013/14

Budget Sub heading no	Name of the program	Budget (In Thousands)	% of total education budget
350016	Education for All	25903854	40.64
350017	Lower Secondary, Secondary Teacher salary	13505396	21.19
350023	Special Education Council	10000	0.02
350105	Community School capacity building program with TEVT soft skills	319170	0.50
350108	Higher Education	1137266	1.78
350116	Second Higher Education project	229148	0.36
350118	Education for All (EFA) Child development Program	230129	0.36
350121	School Sector Reform Program (Central Level)	393974	0.62
350803	School Sector Reform Program (District Level)	22008450	34.53
	Total	63737387	100.00

Source: Department of Education, 2014

Education for All (40.64%) has received the highest allocation of budget followed by School Sector Reform Programme (District Level) (34.53%), and lower secondary and secondary teacher salary (21.19%). This allocation of budget reflects government's commitment to achieve 100 percent enrollment in primary education by 2015. Very little has been allocated for community school capacity building, higher education, child development programmes and others.

3.3 Education taxation

The Educational Service Tax (EST) was introduced by the first elected government, after Nepal was declared a federal republic in *Ashoj* 2065 BS, through its budgetary programme. The budget speech clearly stated that five percent education tax should be collected from private educational institutions on their fees and collected tax should be used for the benefit of the poor students of backward and remote areas. In 2008, the Finance Minister Baburam Bhattarai had made it mandatory for private schools to pay five per cent of fees collected from students as Education Service Tax. The government stated the money collected would be invested in improving education standard in remote parts of the country. In 2009, after the schools protested the tax, the government reduced the rate to one per cent.

Expectation from education tax in Nepal in current fiscal year and its achievement

Through EST, GoN has planned to collect Rs. 3.8 billion in fiscal year 2013/14, however until the end of Magh only Rs 2.7 billion was collected. According to Tankamani Sharma, the Director General at Inland Revenue, this is 156% increment against last year's progress on revenue collection.

Protest by Private Educators and Guardians

Private school operators and guardians have protested the government decision to impose one per cent tax on fees as Education Service Tax. A meeting of Private and Boarding Schools Organisation Nepal (PABSON) and Guardians Association of Nepal (GAN) held in June 11, 2012 decided to call on the government to scrap the 'unconstitutional' tax. Their demand comes as the government is preparing its budget for the next fiscal and deciding on tax rates.

Suprabhat Bhandari, president of GAN, said as education is a fundamental right in the Interim Constitution, the government should not impose such taxes on students.

"The government should not impose taxes in the education sector as education is a fundamental right as per the constitution", said Bhandari. The tax should be scrapped at the earliest. The meeting also called on the government to scrap ships to deserving students just because they attended private schools. Bhandari said the meeting decided to push for formation of a separate mechanism to sort out problems in the education sector, especially to improve education quality through strengthening and boosting moral support and coordination among teachers' and union.

Process of revenue collection

The collection of EST is regulated according to the provisions of Educational Service Tax Directive 2065. As per the directive, each educational institution must take a Permanent Account Number (PAN). The Inland Revenue Office will provide certificates of PAN to the institutions. Those certificates must be kept in the accounts section of the institutions where people can see it. While collecting fees from the students, the institution must use bills designed as per the directive with proper serial numbers. The bills thus issued must have at least three copies, first for students, second for Inland Revenue Office and others for the purpose of the institution. The institution must submit the second copy of the bill to the Inland Revenue Office if demanded.

Though the educational institutions collect money under various headings from the students, the Educational Tax Directive 2065 has limited only to the admission fee and educational fee for the purpose of raising tax. This gives private schools an opportunity to increase funds from parents under various headings. It is likely that the tax imposed on schools is shifted to parents and ultimately it is the household sector that pays the tax. As per the law, the educational institutions have to submit their records and collect service tax every four months to the Inland Revenue Office. If any institution does not pay the service tax within the stipulated time, it must pay fine of Rs. 1000 per items of records and 15 percent monthly interest on the tax amount. The Educational Service Tax Directives 2065 has authorized the government even to ban the operation of an educational institution, if it does not pay the predetermined tax amount within three months after the deadline of paying tax as given by the tax office. Though there are sufficient laws and rules administering and monitoring in each sector, the implementation part has been weak in Nepal. The enforcement of educational service tax is not an exception. According to the Inland Revenue Department, there are around 8000 private educational institutions throughout the country. Among them, only around 4000 institutions have been registered at the tax office and given the PAN.

3.4 National budget formulation process

1. National planning Commission provides budget ceiling to ministries including Ministry of Education (MoE) and make necessary instruction regarding budget in the months of *Aswin /Kartik*
2. The Resource committee of NPC convenes and analyses the budget issues and trend
3. NPC instructs the ministries to submit the budget in the third week of *Paush*
4. The relevant ministries including MoE submits the budget and programs in the third week of *Chaitra*
5. Budget and program discussion takes place in Ministry of Finance (MoF) and NPC in the third week of *Baishakh*
6. Then, NPC approves the annual program of ministries including MoE and MoF passes the draft of annual budget in the third week of *Ashadh*.
7. The Finance Minister presents the annuals national program and budget in the parliament

Education budget formulation process

Both budgeting and planning process start at the school level. However, the DoE already fixes the budget ceiling for a district prior to receiving budget requirements from respective schools. This decision is based on the data of previous year. This probably is due to the fact that there is a delay in district level data reaching to DoE. However, this process undermines the requirement of schools and shows that policy, process and practice do not go hand in hand when it comes to implementation. The process of budget allocation although seems to be decentralized but in practice it is highly centralized.

In principle (not in practice), every year, respective schools prepare budget after the consultation with stakeholders in community. The budget is prepared in lieu with Village Education Plan and gets approved by School Management Committee. It is then forwarded to DEO through Resource Center. The DEO compiles and reviews demands of various schools and forwards it to DoE after getting necessary approval from the District Development Committee (DDC). DoE reviews the proposed budget and prepares final budget which is submitted to MoE. The budget is forwarded to National Planning Commission (NPC) and Ministry of Finance (MoF). The final annual budget is prepared by the MoF. The budget is released after approval from the parliament. It has been shown in the chart below:

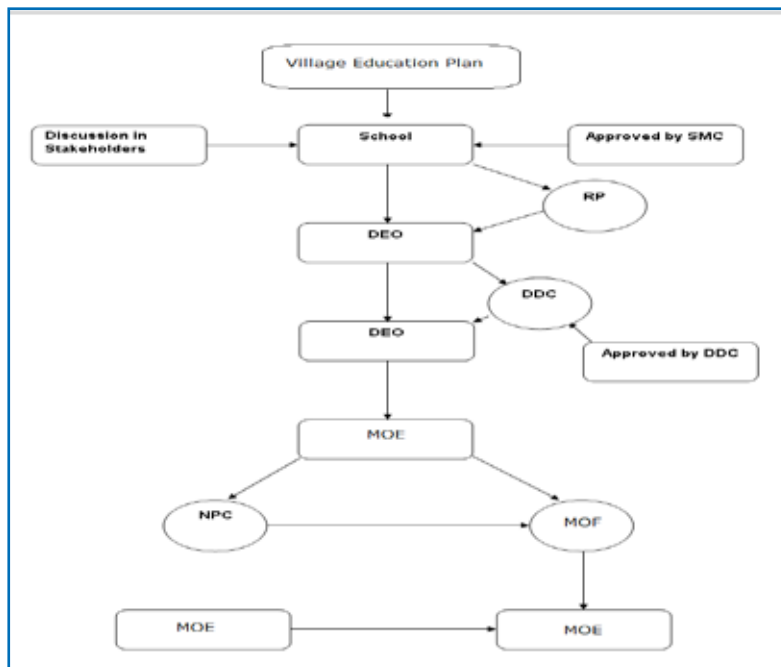


Fig 1. Process of budget preparation (Shrestha et. al. 2009)

Process of budget release

Fund flow in education is entirely of 'Top to Bottom Approach'. As shown in figure 2, the approved budget is implemented by the Ministry of Finance. It provides authority to the MoE and accordingly the MoE to the DoE. DoE gives authority of the fund to DTCO and to DDC (for primary level). DTCO provides the primary level fund to the concern DDC for the purpose of giving it to DEO and provides rest of all other fund directly to DEO. DEO then deposits the funds in respective bank accounts of schools. Furthermore, the schools also receive other funds from different local or national level agencies such as local clubs, stakeholders and NGOs.

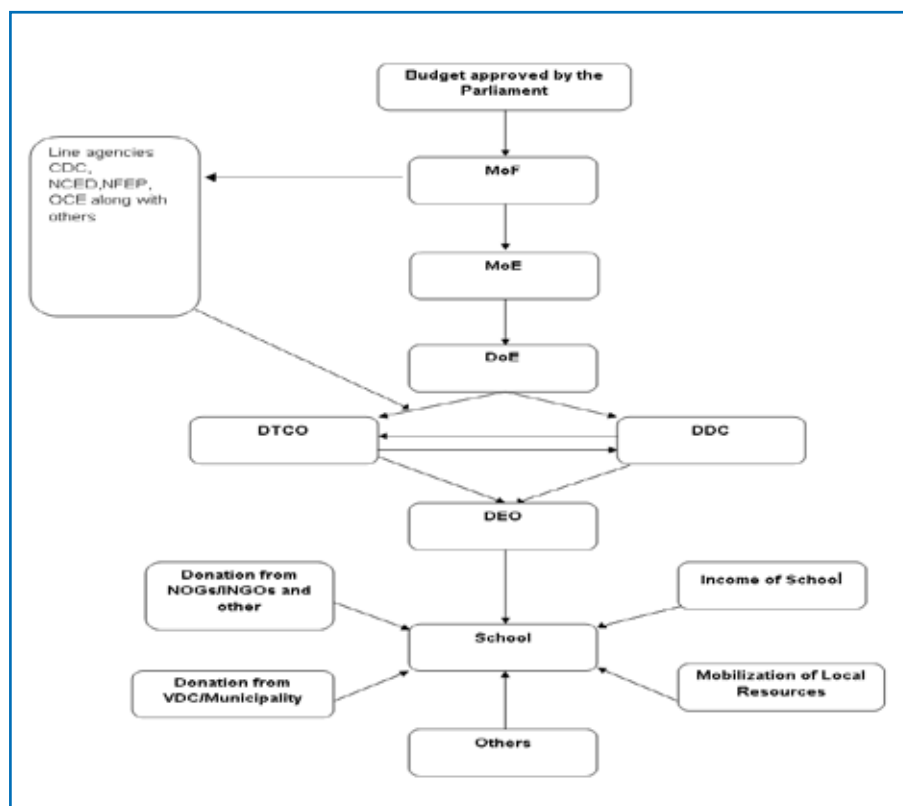


Fig 2. Budget flow mechanism (Shrestha et. al. 2009)

Fund flow mechanism in education is tedious, long and complicated process having various institutional ladders and unnecessary authorization (Global campaign for Education, 2007). There is room for shortening the bureaucratic process. For instance, directly sending salary and construction fund to school would be an option rather than releasing it through MoF. Discussions have been continuing at policy level to ease the process particularly on teacher salary and physical infrastructure construction issues.

As fund flow is directly linked to the trimester progress report of the districts, delay on reporting by school due to various reasons such as schools are not serious on reporting, district not being able to compile progress reports causes delay in releasing budget for next quarter. Late submission of the trimester progress report by a school in a district creates the chain reaction. Late submission of the progress report by a school causes delay on DEO reporting to DoE. This causes delay in trimester reimbursement which delays implantation of programmes at local level. Political instability at central level (Frequent change in Education Minister), and technical problems in center and districts such as absence of DEO, concerned personnel and limited number of human resource cause delay in fund flow.

Duration of fund flow

The process required for fund release from issuing an authority letter from MoF to MoE and from MoE to DEO, and from DEO to schools is a long and cumbersome. In fact, actual fund release which takes place in practice does not match the stipulated time mentioned by the MoF to the MoE in issuing the letter of authority. DoE cannot send the authority letter in the given 15 days to DEO, unless it is accompanied by an annual program approved by the NPC.

The delay in submitting the annual plan and program itself takes place at the DEO level, which is required to be submitted to DoE for screening prior to sending it to the MoE and from the MoE to the NPC for approval. DoE sends the annual plan and program on piece-mil basis to the NPC for approval, finding it difficult to get the accumulated annual program in time from DEO. Hence, it has become a common practice for the NPC giving approval for annual programs which follow with issuing the letter of authority to spend at the last hour of the closing fiscal year.

3.5 Observations at district level

Budget allocation on the priority basis

According to DEO in research districts, the entire budget demanded by school could not be provided. Schools in study district namely Dadeldhura, Banke, Kathmandu and Saptari have mentioned that the DEOs allocate budget on the priority basis.

Budget headings are not mentioned clearly

It is observed that DEO transfers the fund to school's account without clearly mentioning the budget heading. This creates problem to school on identifying how much to spend for various purposes. If schools want to know the budget head, they need to visit DEO to get detail information¹. Although schools are instructed to abide by the expenditure as per the budget head, due to lack of information on the budget head, schools just spend the budget just guessing. This creates a problem of payables to school (Beruju) as schools have to justify all the expenditure they make.

1 Based on Interview with a head teacher in Kathmandu

In some schools, it was also observed that due to the negligence of the head teachers, budget headings were not complete. Head teachers influenced the accountants to formulate the budget, and in many districts these statements did not have all the required headings. It is also observed that schools do not want to reveal their budget statements. Many schools of Saptari including schools of district headquarter Rajbiraj, don't want to make the school budget public except budget coming for teachers' salary. One of the major reasons for such behavior is the suspected widespread financial irregularity².

Situation of payables (Beruju)

The schools under this study in Dandheldhura have reported of having no financial irregularities. However, there have been some cases of financial irregularity in other schools in Dandheldhura³. It is found that DEO regularly monitors schools for financial transparency. Eighty five schools in Banke district have Beruju. The total amount of Beruju is approximately 50 million in Bardiya. Among schools having *Beruju*, only few schools have not spent the amount provided. Some of those schools have invested the amount in different sectors than the agreement. It is found that DEO Banke issued a warning notice to those schools.

Madarashas (religious school of the Muslims) are the largest contributors of *Beruju*. 24 Madarashas are facing this problem. Madarashas had received funds from DEO committing 40% contribution from the side of community people for building construction. However, neither they have been able to collect money from the community people nor completed the building construction.

Payables (Beruju) not settled for long

Fund utilization seems to be quite high in almost all the sample districts. It, however, does not tell whether the fund is efficiently or effectively used. Audit reports have pointed out most of the spending as un-audited (irregular). Among the four districts, the highest was for Saptari with 1.8 billion rupees. It raises serious questions about the way funds are being utilized at the DEO level. For example, some of the schools in Saptari are yet to settle the due for a decade.

Lack of supervision: A major loophole

Construction programs require monitoring and evaluation reports approved by technical officers of the DEOs prior to its fund release. However, other programs like scholarship funds, curriculum funds do not have any supervision and monitoring. Though, yearly financial audit reports and social audits were submitted by schools, they were hardly reviewed by the DEO. It is also observed that there is a poor practice of formal written reporting by the resource persons. Most of the reporting is done verbally during their regular meetings. Therefore, the irregularity done by schools are not known to DEO on time.

2 Discussion with Jitendra Dev, a Journalists in Saptari
3 Based on interview with Dandheldhura DEO

Fund utilized on different headings

School observation revealed that some of the schools have utilized the budget on different purposes than agreed previously. For example, Gyansagar Higher Secondary School in Banke took Rs 200 thousands for toilet construction, however, used the budget for depositing the amount for upgrading schools to higher secondary. DEO monitoring has identified Lokatantrik Secondary School Belhari spending student scholarship amount for teachers' salary⁴. The same is widely practiced in other research districts as well.

Schools collect fee from students

Despite the government has made school level education free, schools are still taking some fee from students. Although, the funds they raise from students are nominal, this has raised series of questions in relation to policy provision and implementation of the policy in relation to free education.

Audit

Primary and lower secondary schools are neither provided accountant to keep the account nor enough budget for their audit. Therefore, audit has just been a formality. Also, it is observed that some schools are unaudited. It is estimated that the *Beruju* amount might be higher than stated above as some schools are not audited.

Social Audit

Most of the schools in Saptari have not conducted Social Audit. It is mandatory for all public schools to conduct Social Audit at the end of the fiscal year and provide the social audit report to include it in school audit report. One of the sample schools in Kathmandu also has not conducted social audit. It is interesting to note that other sample schools in Kathmandu have not conducted financial audit but have conducted social audit.

Lack of Human Resource

Due to lack of accountant in primary and lower secondary schools, such schools are facing problem to keep account through voucher system. In such schools, head teachers are putting their effort to keep the accounts. However, despite their best try, they are not able to keep things in track due to lack of their expertise. Accountants in some DEOs aren't excellent on their job and are in need of trainings.

3.6 Findings related to free and compulsory education

Following the restoration of multiparty democracy in 2006, Nepal promulgated a new Interim Constitution early in 2007. The Interim Constitution of Nepal has stipulated school education as a fundamental right for all and has put an emphasis on ensuring access to quality basic education for all citizens. Article 17 of interim constitution 2007 has provision of Right relating to education and culture which states that (1) Every community shall have the right to get basic education in its own mother tongue, as provided in law, (2) Every citizen shall have the right to get free education up to the secondary level from the State, as provided in law, (3) Every community residing in Nepal shall have the right to preserve and promote its language, script, culture, cultural civilization and heritage.

The Three Year Interim Plan (TYIP) (2070-2073) has focused on free and quality primary education irrespective of caste, gender, ethnic groups and geographical differences. The 13th interim three-year plan (2070-2073 BS) prepared by National Planning Commission (NPC) has targeted to make education up to secondary level free and compulsory. However, government authorities have expressed helplessness to achieve the target citing insufficient budget. Speaking at an interaction programme which was organized by Education Journalists Group, Rose Nath Pande, deputy spokesman for the Ministry of Education (MoE), said, education does not feature in the government's priority list. Therefore, the budget would be insufficient to meet the target. Pandey said due to the lack of sufficient budget, the ministry would not be able to provide free and compulsory education up to the secondary level.

In line with the thrusts of the constitution of Nepal and the TYIP, the School Sector Reform Plan (SSRP) 2009-2015 has been developed with focused interventions for underserved groups and communities. SSRP has provisioned free and compulsory basic education. Regarding free education, SSRP states:

Beginning from Fiscal Year, (2008/9) basic education (1-8) has been declared free, extending it up to the secondary level in a phased manner. Free basic education will include cost-free services for admission, textbooks, tuition and examinations. For poor, marginalized and needy populations, scholarships and other support will be provided. Special provisions will be made to cater the needs of public school students in Karnali Zone, the students from the Dalit communities, the students with disabilities across the country, and paying special attention to girls.

Regarding Compulsory Education SSRP states:

The government will adopt a compulsory basic education policy through statutory arrangement, appropriate at national and local levels. Local governments will be entrusted with the responsibility for the reinforcement and implementation of compulsory basic education. Incentive schemes will be developed to encourage local governments to adopt and declare basic education free and compulsory in their respective areas.

Although, government has tried its best to make the school education easily accessible including through incorporating the idea in various policy provisions, basic education has not been free and compulsory. Therefore, the Government of Nepal has drafted a new education bill. After the endorsement of the bill from cabinet, the spirit of the interim constitution regarding free and compulsory education will be translated into reality. The

government of Nepal has recognized primary education as grade 1-8 and following the passage of the proposed act, students up to grade 8 get waiver on monthly fee, admission fee, re- enrollment fee, extracurricular fee, laboratory fee, library fee, exam fee, repair and maintenance fee, primary health care fee along with others.

3.7 Problems and challenges in implementing free and basic primary education

The MDG report (2006) highlights the fact that the goal of universal primary education appears to be out of reach by 2015. Many schools, especially those in less well-off areas, do not have adequate basic facilities, and are poorly equipped. Many students, especially those in less well-off areas, do not have good access to primary schools. Another major concern is lack of student textbooks. Teacher's performance is not expected as standard. In essence, a learning space (classrooms) meeting basic minimum quality standards, learning facilitators (such as a teacher) possessing basic minimum qualifications, and learning facilitating materials and equipment meeting minimum quality standards are not well addressed that has affected the aspects of access, quality and equity. Of course, budget allocation made in the sector is inadequate, but the most important factor affecting aspects of access, quality and equity has been ineffective in the implementation of the given budget. Although, government can offer primary education free of cost, the money required for bag, stationery, books, pens along with others makes it costly to guardians and students. Therefore, we can still question over the feasibility of free and compulsory education for all. It is more than just the cost of bags and stationeries. It is the cost of living which many families cannot afford.

Chapter 4:

Conclusion and Recommendations

Regarding Fund Flow and Account keeping system

- The institutional ladder is found to be one of the obstructions to the timely release of budget. So, government needs to simplify the process in some budget items (i.e. concept of direct funding on Teachers salary, construction project)
- School's priority should be decisive on deciding the budget.
- To avoid the ambiguity and misunderstanding regarding the budget headings, DEO accountant should provide each school the detail of the budget head and amount transferred to school accounts. Our observation shows that many schools are unaware of the budget heading of the amount they received.
- The funds provided by the government for financial audit of NRs. 1000 only per school are not sufficient, and hence needs to be raised.

Regarding financial transparency

- All schools should be audited and audit reports from the schools should be followed up and monitored closely in order to make it more effective and stringent.
- Proper action from DEO should be taken to reduce payables (Beruju). The total amount of Beruju is approximately 50 million in Banke. According to the data provided by Regional Education Directorate, the Beruju amount on name of DEO Saptari exceeded 1.8 billion. Therefore, it is responsibility of the DEO to take concrete steps to resolve the issue.
- Supervision system needs to be strengthened. Programs like scholarship funds and curriculum funds do not have any supervision and monitoring. Though, yearly financial audit reports and social audits were submitted by schools, they were hardly reviewed by the DEO. Also, it is found that there is a poor practice of formal written reporting by the resource persons. Most of the reporting is done verbally during their regular meetings. Therefore, supervision system needs to be strengthened.

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ANNEX-1

A. Guiding questions for District Data Collectors

- How much fund was demanded to DEO prior to formulation of the education budget for fiscal year 2070/71? Please mention the budget head as well.
- How much was released?
- What are steps and process of budget release?
- What is the present situation of school (In relation to good governance , transparency, irregularity, audit , *Beruju*, fund transfer along with other financial issues)?
- Impression of District Education Officer and school principals on above mentioned issues

B. KII checklist

- Education budget formulation and release process
- Process of revenue collection through education taxation
- progress and status of free and compulsory education
- Trends of misuse of allocated budget and irresponsibility's from national to local level



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